

Common School (K-12) Capital Budget Primer



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Prepared by the Senate Committee on Ways and Means

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This common school (K-12) capital budget primer is offered as a resource for citizens, members of the Senate, and other interested persons to provide a clear and simple overview of common school construction funding.

It provides historical information on school enrollments, state allocations for common school construction, sources of funds, and describes the eligibility criteria and process used to allocate funds among the various school districts.

The primer was developed as a response to requests received by the Senate Ways and Means Committee for a brief and easy-to-understand document that would explain an otherwise complex and involved process.

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I. Introduction

In the 1997-98 school year, there were 981,275 students enrolled in Washington's Public Schools. These students were housed in 2,000 school buildings having 109 million square feet with 43,056 classrooms. Some of the space is new, some old and some in need of modernization.

The provision of school facilities is a state and local responsibility. School districts decide when there is a need to add, renovate or replace buildings, where to locate buildings and what type of buildings to build. The state has a program to assist school districts in these projects by providing matching funds, which currently averages about 34 percent of total project costs. The actual percentage varies from district to district based on a formula that attempts to equalize the burden of financing school facilities regardless of variations in wealth among districts.

Since 1967 the primary sources of state matching funds have been dedicated revenues from school trust lands and a permanent common school construction fund. Since 1982 these dedicated funds have not sufficed to provide the necessary state matching funds. Beginning in 1989, the legislature has supplemented dedicated funds with revenues from other sources.

In terms of process, the state capital budget for public schools differs from most other appropriations made by the legislature for capital projects. Rather than making appropriations for each school district project, the legislature appropriates a block of funds to the State Board of Education. The legislature has delegated to the State Board the authority to decide which individual projects will be funded. To make these decisions, the State Board has created a priority system with criteria for setting priorities. This process has largely removed decisions on specific projects from the legislative political arena.

The priority system used by the State Board is based on criteria concerning the degree of need for each proposed project and other factors. For new construction, the primary criterion is the projected percentage of unhoused students in a school district and for modernization it is the age and condition of the building. Each year projects are ranked and a mix of new construction and modernization projects is funded.

The local share of school construction is typically provided from voter authorized bonds. To become eligible for state matching funds a district must pass a bond issue. This gives patrons of a school district a voice in the approval of projects and in setting a tax to fund the local share of the project.

The following sections provide greater detail on the nature of the process and its funding.

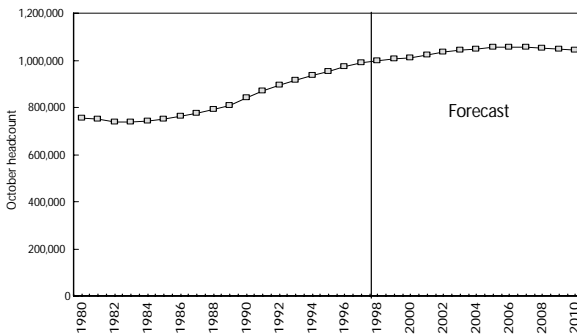
II. What Drives the Need for School Construction

Enrollment Growth

An additional 89,000 students are expected by school year 2007. The rapid increase of the 1990's will level to a modest growth rate after 2000. Enrollments will reach the one million level for the first time in 1998. Statewide, aggregate data masks two additional drivers of demand for new construction:

- interdistrict movement of students
- aging of student cohort

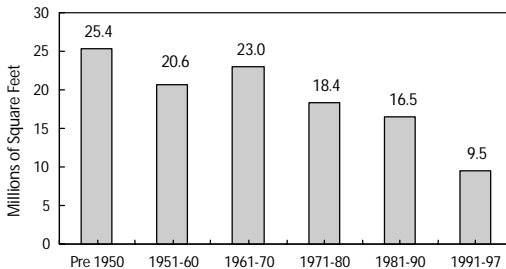
Statewide K-12 Public School Enrollment



Age of Existing Facilities

50% of the square footage in school buildings, or roughly 60 million square feet, is more than 20 years old and has not been modernized with state matching funds.

Age of Existing Facilities-Year Built or Modernized

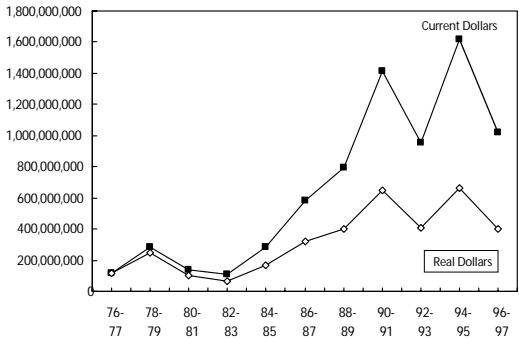


Local Bond Levy Passages

Even after adjusting for inflation, voters are approving an increasing volume of local bonds and capital levies for school construction.

- Bond approvals for 1994 total \$1.2 billion. A record level.
- Bonds approved in one year typically generate requests for state match for the next 3 to 5 years.

Local Bond Passages 1976-1997-Current vs. Real Dollars



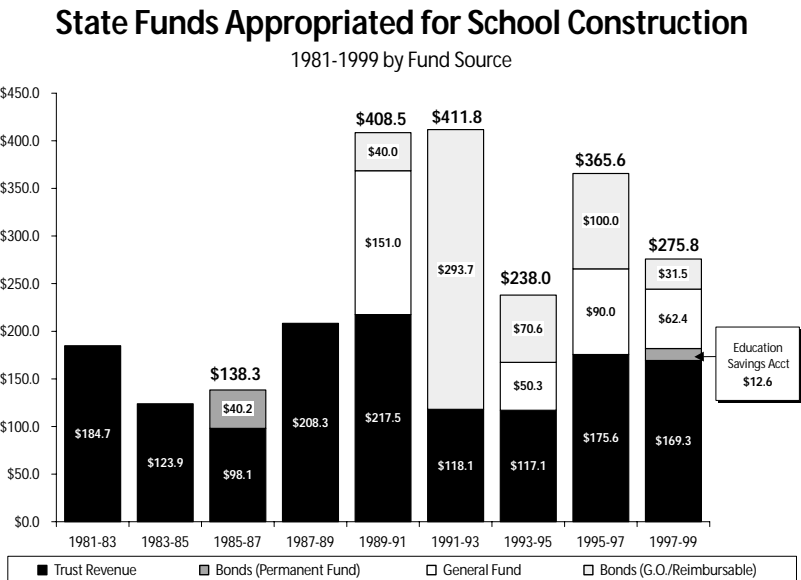
III. Source of Funds for K-12 Capital Budgets 1981-1999

From the 1960s to the late 1980s, revenues from two funds dedicated to common school construction were the main source of funds for state matching funds. The two dedicated funds are the Common School Construction Fund and the Permanent Common School Construction Fund. Beginning in 1989, the legislature began supplementing trust revenues with other state funds.

The Common School Construction Fund receives revenues from trust lands that were given to Washington State when it entered the Union. Most of the lands were retained by the state to generate revenue for the support of local school construction. The Department of Natural Resources manages the 1.8 million acres of trust lands and revenues generated on the lands from renewable resources are placed into the fund.

There is also a Permanent Common School Construction Fund that receives any income generated from the sale of trust lands and nonrenewable resources. The principal of the fund is irreducible and is currently about \$147 million. The interest income from the fund is used to pay off bonds issued for school construction and any remaining income is placed in the Common School Construction Fund.

The graph below shows the amount and source of funds appropriated for K-12 capital from 1981 to 1999.

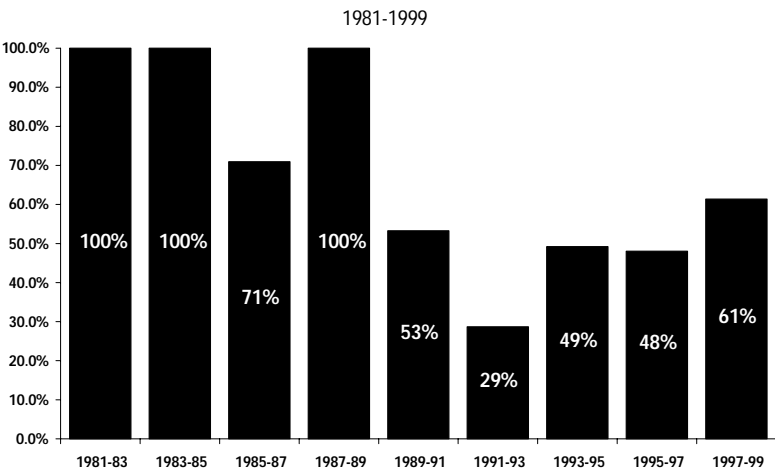


Beginning in 1983, revenues from the trusts did not suffice to meet the need for state matching funds due to the collapse of timber prices. At various times during the 1983-85 biennium, the State Board of Education placed a moratorium on all new projects. Ultimately, to spread the available dollars to more projects, it reduced the state allocation for square feet per student by 20 percent and the dollar amount per square foot by 15 percent.

By the end of the 1983-85 biennium, there were about \$300 million of projects waiting for state funding. In the spring of 1985, the State Board did away with the first-come, first-served approach to project approvals. It then adopted a priority system which gave the highest priority to new construction projects driven by enrollment growth, second priority to projects resulting from condemnation of facilities, and third priority to modernization projects.

In the mid-1980s, K-12 enrollment, which had been declining, began to increase. This compounded the problem of insufficient trust revenues and the backlog of construction projects ultimately reached more than \$400 million by 1989. After considering various tax measures to supplement the trust revenues, including one which was sent to the voters in 1987 to establish a property tax which was unsuccessful, the 1989 legislature appropriated \$151 million in general funds and \$40 million in General Obligation (G.O.) bonds. This broke the tradition of funding K-12 capital solely out of dedicated trust funds. In each biennium since 1989, the legislature has supplemented trust revenues from various other fund sources. The graph below shows that trust revenues as a percent of total funds for K-12 capital has been declining.

Trust Revenue As a Percent of Total State Funds for K-12 Capital



New Potential Sources of Funds for K-12 Capital

Education Savings Account - As a result of legislation enacted in 1997, education programs receive a portion of appropriations to state agencies that remain unexpended at the end of each fiscal year. Under previous law, unspent state appropriations at the end of a fiscal year would revert to the state General Fund. Under the new law, state agencies can retain up to fifty percent of unspent appropriations (reversions) as an incentive for the agencies to achieve savings and operating efficiencies. The remainder of the reversions is deposited in a new Education Savings Account. This new account is dedicated to education programs, with ten percent going to higher education purposes and ninety percent allocated to common school construction projects and K-12 technology improvements. These funds are subject to legislative appropriation.

The 1997 appropriations from this account were \$12.6 million for school construction and \$39.2 million for technology improvements. Deposits to this account were \$54.5 million in Fiscal Year 1998 and are projected to be \$36 million in Fiscal Year 1999.

Education Construction Fund - Initiative 601, enacted by the voters in 1993, established a limit on expenditures from the state General Fund. Revenues received by the state that exceed the expenditure limit cannot be expended and are automatically deposited in an Emergency Reserve Fund. This reserve fund is a type of savings account that can be used to supplement the state budget (with a two-thirds vote of the Legislature) during periods of economic downturn when state revenues are insufficient to support the budget. If the Emergency Reserve Fund grows to a level equal to five percent of biennial General Fund revenues, the excess moneys are transferred to an Education Construction Fund. Moneys in this fund may be appropriated by the Legislature solely for construction projects for higher education and the K-12 system (or the funds may be used for other purposes if the Legislature acts by a two-thirds vote).

To date, no deposits have been made to the Education Construction Fund, and state revenue forecasts do not predict that any deposits will be made in the near future.

IV. State Match for School Construction

The program of state assistance for school construction, first established by the legislature in 1941, is based on the principles of state and local school district responsibilities in the provision of facilities and equalization of the burden among school districts to provide facilities regardless of variations in wealth among districts.

Districts must first secure voter approval for the local share of a school project prior to becoming eligible for state matching funds. Once voter approval is attained, there are two key aspects to state financial assistance:

1. **Eligibility** - (how much state match a district qualifies for); and
2. **Priority** - (in what order eligible projects receive state matching funds).

Eligibility (how much match can a district receive?)

Four factors determine how much the state match for a district will be:

1. Enrollment

For new construction, the state limits the amount of space per student that it will fund based on enrollment projections and square feet per student. For new construction due to enrollment growth, the state compares a district's existing facility capacity to projected enrollment growth over the next five years. The state provides matching funds for the shortfall in capacity.

The square foot limit, which was adopted in 1985, is as follows:

Kindergarten	40 sq. ft/student
Grades 1-6	80 sq. ft/student
Grades 7-8	110 sq. ft/student
Grades 9-12	120 sq. ft/student
Students with disabilities	140 sq. ft/student

Districts deciding to build larger facilities must pay 100 percent of the extra space, and the extra space is counted as part of the overall district capacity for future projects.

2. Age of Facility

To be eligible:

- A school must be at least 20 years old, (30 years if built after 1991); and
- The cost of the project must exceed 40 percent of the replacement cost of the building.

3. Type of Project (New Construction vs. Modernization)

The January 1999 state match is \$99.38 per sq.ft. for new construction and up to 80 percent of that amount or \$79.50 for modernization. Districts are responsible for costs above that amount. This dollar amount is adjusted for inflation each month.

4. Relative Wealth of the District and Matching Percentages

The state matching ratio varies by district based on a statutory formula that makes adjustments based on the relative wealth of a district. Districts with below average assessed value per student receive a larger state match than those above average. There is a lower limit, which is that no district will receive less than a 20 percent match.

Certain types of projects may receive additional state assistance. These include: condemned facilities; interdistrict cooperative facilities; school housing emergencies; projects to improve racial imbalance; and improved school district organization (consolidation).

Priority (In what order will projects be funded?)

Each July the State Board authorizes projects to be funded based on the level of appropriation authority granted by the legislature and available revenues. All projects approved at that time must have secured local funding, approval by the State Board by January 31st, and all the necessary paperwork submitted to the state by June 30th.

In any year, if there are not enough funds, then projects are authorized based on a priority system. The priority system awards points based on various criteria and projects with the highest points receive first priority.

The graphic on page 11 illustrates the point system used prioritizing projects.

For most categories, the points shown are the maximum that can be given. The listing below briefly explains the terms used:

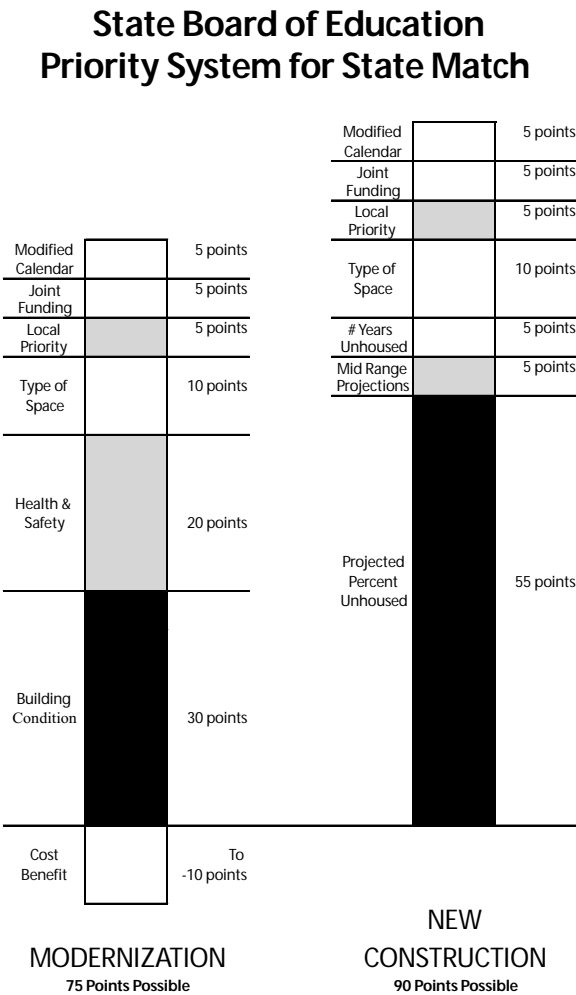
Factors that apply to new construction and modernization are:

- A. **Modified Calendar** - 5 points for year round schools that allow more students to be served in a facility.
- B. **Joint Funding** - 5 points for projects funded in cooperation with other government entities or private donors.
- C. **Local Priority** - up to 5 points. The first project of a district is awarded 5 points and succeeding projects less.
- D. **Type of Space** - up to 10 points. The most points are awarded for instructional space.

Factors that only apply to new construction are:

- A. **Projected Percent of Unhoused Students** - up to 55 points based on 5 year projected enrollment.
- B. **Mid Range Projections** - up to 5 points based on 3-year enrollment projection.
- C. **Number of Years Unhoused** - up to 5 points for existing unhoused students.

Additional point factors that only apply to modernization are:



- A. **Building Condition** - up to 30 points based on overall analysis of the building.
- B. **Health and Safety Factors** - up to 20 points mostly for fire safety items.
- C. **Cost Benefit Factor** - up to 10 negative points if the proposed project does not correct the problem in the most effective way.